

### III. THE BROADCASTING INDUSTRY TODAY

#### A. Overview

The broadcast television industry of today operates in a vastly different economic environment than did the one on which the bulk of current regulations were imposed.

Major patterns and trends include the following:

- **Increased Competition for Viewers, Advertisers, and Programming:**

Competition from a variety of media continues to increase at a rapid pace

- **Increased Numbers of Broadcast Networks and Stations:** The numbers of networks and stations have increased dramatically. In terms of who owns stations, three facts stand out: (1) most stations are controlled by group owners; (2) significant numbers of independent stations remain; and (3) few stations are owned by minorities.

- **Skewed Industry Profitability:** Industry financial statistics indicate that local television stations have been and are more profitable than the broadcast networks.

- **Rise of Alternative Areas for Network Investment:** Cable programming services and the Internet offer broadcasters attractive alternative markets in which to make investments in content and marketing.

The next parts of this section look at each of these patterns and trends in more detail

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The increase in competition also alters the role for public policy in promoting minority ownership, but here the nexus between competition and the public interest goal is more complex. This issue is addressed further below.

## **B. Television Broadcast Stations and Networks Face Strong Competition**

The past two decades have witnessed a sharp increase in competition faced by television stations and networks for viewers, for advertisers, and for programming.

**Competition for Viewers.** The most striking trend of the last thirty years has been the steady and dramatic fall in the broadcast networks' ratings. Between the 1952-53 and 1990-91 seasons, the collective prime time ratings of ABC, CBS and NBC fell by half, from 75 to 37.5.<sup>4</sup> By the 1997-98 season, those three networks saw their prime time ratings fall to 28.3, a decline of another 25 percent.<sup>5</sup> Even if FOX is included in the total, the four networks ratings for the 1997-98 season were only 35.3, again well less than half what they were when many of the rules governing broadcasting were put in place.<sup>6</sup>

Figure 4 shows how the erosion of the television ratings has affected both network-affiliated and independent stations in recent years and has taken place across all parts of the day. Moreover, as shown by the figure, Veronis, Suhler & Associates, a leading industry analyst, projects that this decline will continue.

The principal reason for the decline in television viewing is clear. The terrestrial broadcasting industry faces ever increasing competition from other video rivals, particularly cable and satellite delivered television. Cable television and direct broadcast satellite television have grown tremendously in recent years. In fact, prime time and week-day ratings for basic cable exceeded the combined ratings for ABC, CBS, Fox, and NBC in the first week of August 1999.<sup>7</sup>

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<sup>4</sup> Paul Kagan Associates, *The Economics of TV Programming and Syndication*, 1999 at 21-22.

<sup>5</sup> *Ibid.*

<sup>6</sup> *Ibid.*

<sup>7</sup> "Cable consistently is beating Big 4 networks," *Communications Daily*, August 11, 1999 at 8.

**FIGURE 4**  
**BROADCAST TOTAL-DAY HOUSEHOLD RATINGS**  
**1984-2002**

Year	Network-Affiliated TV Stations <sup>1</sup>	Independent TV stations <sup>2</sup>	All TV Stations
1984	19.4	4.8	<b>24.2</b>
1985	19.4	4.6	<b>24.0</b>
1986	19.5	4.8	<b>24.3</b>
1987	18.0	4.8	<b>22.8</b>
1988	17.5	5.0	<b>22.5</b>
1989	16.6	4.7	<b>21.3</b>
1990	15.5	4.8	<b>20.3</b>
1991	16.1	4.4	20.5
1992	18.6	3.2	<b>21.8</b>
1993	18.7	3.3	22.0
1994	18.7	3.5	<b>22.2</b>
1995	17.0	3.7	<b>20.7</b>
1996	16.3	3.6	19.9
1997	15.2	3.6	<b>18.8</b>
1998 <sup>3</sup>	14.3	3.6	<b>17.9</b>
1999 <sup>3</sup>	13.6	3.5	17.1
2000 <sup>3</sup>	13.0	3.4	16.4
2001 <sup>3</sup>	12.5	3.3	15.8
2002 <sup>3</sup>	12.0	3.2	<b>15.2</b>

Notes.

<sup>1</sup>Includes Fox affiliates beginning in the fourth quarter of 1991

<sup>2</sup>Excludes superstations; includes UPN and WB affiliates in 1995-1997.

<sup>3</sup>Data are projections.

Source:

*The Veronis, Suhler & Associates Communications Industry Forecast*,  
October 1998, p. 188

The growth of rivals to broadcast television can be measured in terms of availability, penetration, and ratings or shares of television viewing.

The *availability* of subscription services refers to the percentage of the American population who have the option of purchasing the services. The availability of cable television is typically measured in terms of homes passed. **As** the third column of Figure 5 shows, the availability of cable television has risen dramatically in the last two decades, to the point where today over 96 percent of U.S. homes with televisions are passed.<sup>8</sup> The signals of direct-to-the-home television satellites now cover almost the entire U.S.<sup>9</sup> Between cable and satellite, almost every household in the U.S. has the option of purchasing a multi-channel video programming service.

For subscription services, *penetration* refers to the percentage of households that actually purchase the service. **As** shown in Figure 5, cable and satellite video services have enjoyed tremendous increases in penetration. Over 66 percent of television households subscribed to basic cable in 1999. And over 13 percent of television households subscribed to some form of wireless multi-channel video service. The Federal Communications Commission found that approximately 78 percent of television households subscribed to some form of multi-channel video programming service as of June 1998.<sup>10</sup>

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Because of the way homes passed is measured, this figure may slightly overstate the availability of cable. However, it remains clear that cable television is available to almost all television households.

Certain parts of Alaska are not covered.

*In the Matter of Annual Assessment of the Status of Competition in the Markets for the Delivery of Video Programming*, Fifth Annual Report (released December 23, 1998), Figure C-1 at C-1 and footnote (iii) at C-2.

**FIGURE 5**  
**GROWTH OF CABLE, DBS, AND OTHER MVPDs**  
**1982-1999**

Year	U.S. TV Homes (millions)	Cable Homes Passed (millions)	Subscribers (millions)				Penetration of TV Homes			
			Basic Cable	DBS	Satellite Basic	Wireless	Basic Cable	DBS	Satellite Basic	Wireless
1982	81.9	49.5	27.5			0.6	33.6%			0.7%
1983	83.3	55.9	31.4			0.5	37.7%			0.6%
1984	84.9	60.5	34.2			0.4	40.3%			0.5%
1985	86.5	64.7	36.7			0.5	42.4%			0.6%
1986	87.7	69.4	39.7			0.6	45.3%			0.7%
1987	89.2	73.1	42.6			0.7	47.8%			0.8%
1988	90.9	77.2	45.7		0.4	0.7	50.3%		0.4%	0.8%
1989	91.6	82.8	49.3		0.6	0.8	53.8%		0.7%	0.8%
1990	91.1	86.0	51.7		0.7	0.8	56.8%		0.8%	0.9%
1991	92.1	88.4	53.4		0.8	0.9	58.0%		0.8%	0.9%
1992	93.1	89.7	55.2		1.0	0.9	59.3%		1.1%	1.0%
1993	94.0	90.6	57.2		1.6	0.9	60.9%		1.7%	1.0%
1994	94.9	91.6	59.7	0.6	2.2	0.9	62.9%	1.6%	2.3%	1.0%
1995	95.9	92.7	62.1	2.2	2.4	1.0	64.7%	2.3%	2.5%	1.0%
1996	97.0	93.7	63.5	4.3	2.3	1.1	65.5%	4.4%	2.4%	1.2%
1997	98.0	94.6	64.8	6.4	2.1	1.3	66.1%	5.5%	2.2%	1.3%
1998	99.0	95.6	65.9	8.6	1.8	1.4	66.6%	3.7%	1.8%	1.4%
1999 <sup>1</sup>	99.5	96.1	66.5	9.6	1.7	1.4	66.8%	3.6%	1.7%	1.5%

Note.

<sup>1</sup> 1999 data are as of June 30th

Sources:

Paul Kagan Associates. *The Kagan Media Index*. "Historical Data Base." January 31, 1994 and April 28, 1999.

Paul Kagan Associates. *The Kagan Media Index*, "Media Index Data Base." July 30, 1999

Additional evidence of how the growth in cable and satellite represents competition for terrestrial broadcasting can be seen by examining trends in television viewing *ratings* and *shares*. Figure 6 illustrates recent trends in total-day ratings for terrestrial broadcasting and cable.

Figure 6 illustrates that the decline in broadcast television ratings is not due to households' choosing to watch television less. Indeed, as shown in the last column of Figure 6, total television viewing increased between 1984 and 1997. Rather, the decline in broadcast television ratings is due to the increase in cable viewing at the expense of broadcast viewing. The figure also shows that the growth of cable viewing relative to broadcast viewing is projected to continue

This shift can be seen graphically as well. Figure 7 illustrates the trends in household viewing shares through most of the 1980s and 1990s. The picture is clear: the share of advertiser-supported broadcast television has steadily fallen, while the viewing share of cable services has steadily and significantly increased." Figure 7 reports the trends for all television households. The move away from advertiser-supported broadcast television by cable households is even more pronounced. Figure 8 illustrates viewing trends for cable households. As the figure shows, cable households now view cable and pay services more than they view broadcast television. The difference between viewing in television households with and without cable gives a sense of the impact of cable

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<sup>11</sup> Broadcast television's loss of viewer share has hit both network and non-network programming. See Beutel, Kitt, and McLaughlin, "Broadcast Television Networks and Affiliates—1980 and Today," National Economic Research Associates (October 27, 1995) attachment to Comments of the Network Affiliated Stations Alliance, *In Re 1998 Biennial Regulatory Review—Review of the Commission's Broadcast Ownership Rules and Other Rules Adopted Pursuant to Section 202 of the Telecommunications Act of 1996*, MM Docket 98-35 (July 21, 1998) at 8.

**FIGURE 6**  
**BROADCAST AND CABLE TOTAL-DAY HOUSEHOLD RATINGS**  
**1984-2002**

<b>Year</b>	<b>All TV Stations</b>	<b>Basic Cable Programs<sup>1</sup></b>	<b>Pay Cable Programs</b>	<b>All Cable</b>	<b>All TV</b>
1984	24.2	2.0	1.8	3.8	28.0
1985	24.0	2.3	1.9	4.2	28.2
1986	24.3	2.5	1.5	4.0	28.3
1987	22.8	3.2	1.8	5.0	27.8
1988	22.5	3.7	2.0	5.7	28.2
1989	21.3	4.5	2.0	6.5	27.8
1990	20.3	5.2	2.0	7.2	27.5
1991	20.5	6.5	1.8	8.3	28.8
1992	21.8	7.3	1.6	8.9	30.7
1993	22.0	7.6	1.6	9.2	31.2
1994	22.2	7.9	1.7	9.6	31.8
1995	20.7	9.5	1.8	11.3	32.0
1996	19.9	10.1	1.8	11.9	31.8
1997	18.8	10.9	2.0	12.9	31.7
1998 <sup>2</sup>	17.9	11.8	2.0	13.8	31.7
1999 <sup>2</sup>	17.1	12.6	2.1	14.7	31.8
2000 <sup>2</sup>	16.4	13.3	2.2	15.5	31.9
2001 <sup>*</sup>	15.8	14.0	2.2	16.2	32.0
2002 <sup>2</sup>	15.2	14.6	2.2	16.8	32.0

Notes:

<sup>1</sup>Includes TBS beginning in 1992

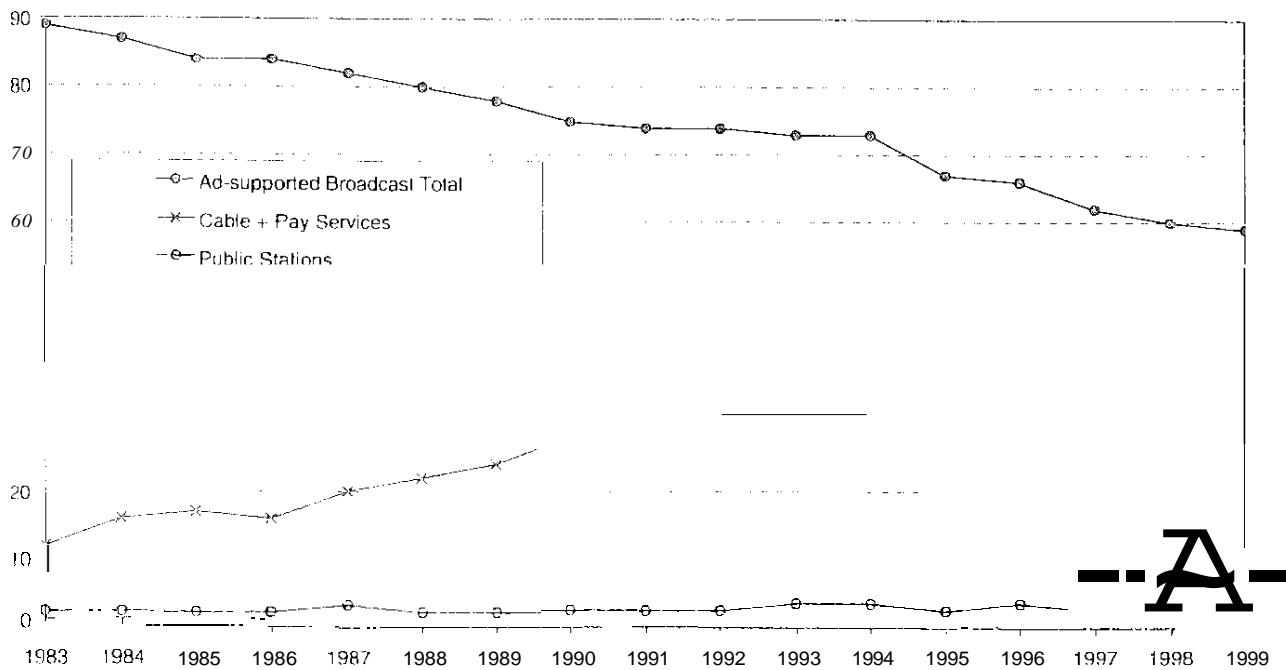
<sup>2</sup>Data are projections.

Source:

*The Veronis, Suhler & Associates Communications Industry Forecast*, October 1998, p. 188.

# **FIGURE 7** **TELEVISION VIEWING SHARE TRENDS**

**All TV Homes**  
**Calendar Year Average**  
**1983-1999**



Notes: Shares in some cases add to more than 100% due to viewing in multi-sel homes.

Historical superslation shares are split equally between cable networks and independent stations

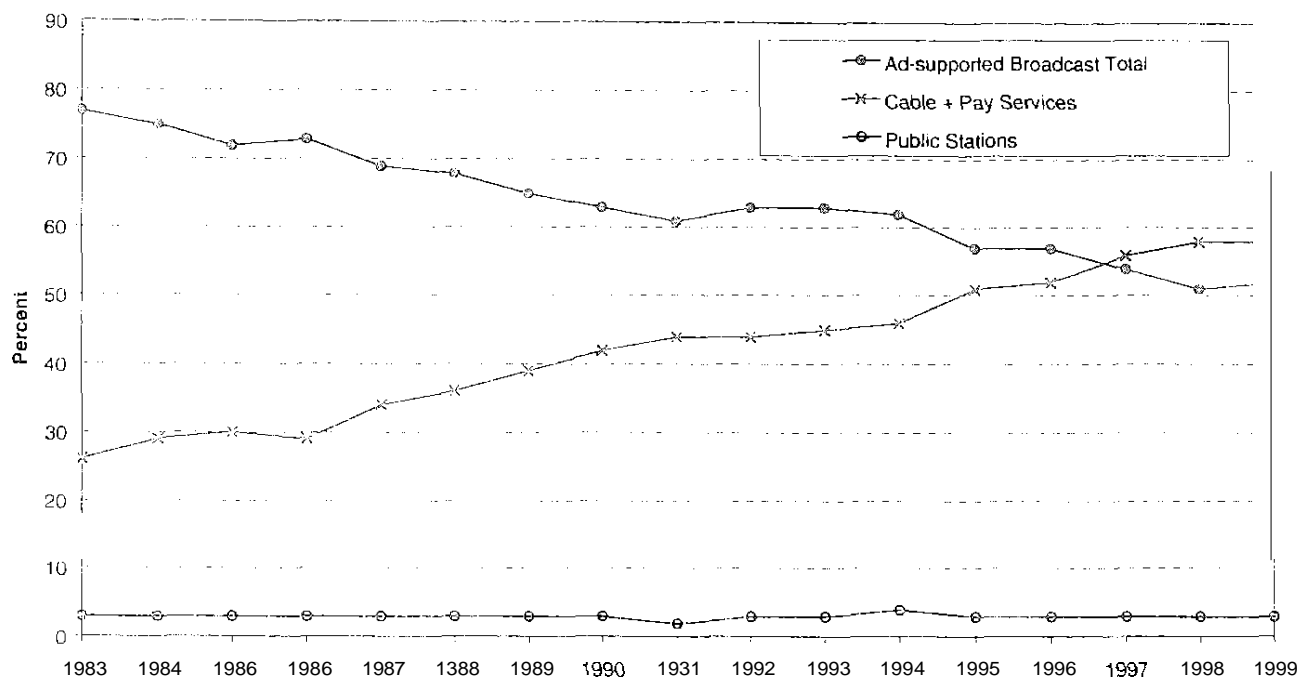
1999 data are for the first quarter

Sources: Paul Kagan Associates, *Cable TV Advertising*, February 28, 1999 and June 21, 1999.



# **FIGURE 8** **TELEVISION VIEWING SHARE TRENDS**

**Cable TV Homes**  
**Calendar Year Average**  
**1983-1999**



Notes: Shares in some cases add to more than 100% due to **viewing** in multi-set homes.

Historical superstation shares are split equally between cable networks and independent stations

1999 data are for the first quarter

Sources: Paul Kagan Associates. **Cable TV Advertising**, February 28, 1999 and June 21, 1999.

television on broadcast television viewing. **As** can clearly be seen from a comparison of Figures 7 and 8, this difference is substantial. This finding supports the conclusion that cable provides significant viewer competition for broadcast television.

Figure 8 also illustrates another important point. The figure shows viewing trends of households that subscribe to cable. Hence, the continuing decline in broadcast viewing over time and the corresponding increase in cable viewing in the figure are not due to the increasing penetration of cable. Rather, the rise of cable reflects the fact that cable programming has become an increasingly attractive option to broadcast programming. Since the second quarter of 1994, the average weekly amount of time per cable household spent watching basic cable has increased **43** percent, while broadcast television's collective viewing time has shrunk 15 percent.<sup>12</sup> **As** discussed below, this increased competition is not surprising given the dramatic increases in the number of cable channels per system and the tremendous growth in the number of national cable programming services over the past fifteen years.

As described earlier, many of the rules governing broadcasting today were put in place to prevent problems that were thought to stem from the economic power of the broadcast networks. Thus, it is instructive to examine what has happened to the viewing share of the three traditional networks, ABC, CBS, and NBC. Like all broadcasters, the traditional networks have been losing share to cable and satellite channels. They have also been losing share to other terrestrial broadcasters, including an increasing number of

<sup>12</sup> "Weekly Hours Spent Watching Basic Cable now **Exceeds** all Broadcast TV in most U.S. Homes, Reports CAB," available at <http://www.cabletvadbureau.com/news/072199news.htm>, August 12, 1999.

rival networks.<sup>13</sup> Figure 9 illustrates the viewing shares of the three traditional networks in comparison with cable television. As the figure shows, cable's share has steadily increased, while the traditional networks' has steadily fallen — to the point that the shares crossed in 1997. This chart dramatically illustrates the fact that broadcast television networks do not dominate the video marketplace.

The conclusion that these networks lack dominance is, of course, even stronger than this graph indicates. These networks are not a monolith. The three traditional networks compete with each other for viewers, advertisers, programming, and affiliates. From the perspective of assessing market power, one should examine each network individually. Clearly, any one network has only a small part of the total audience or any other measure of size.

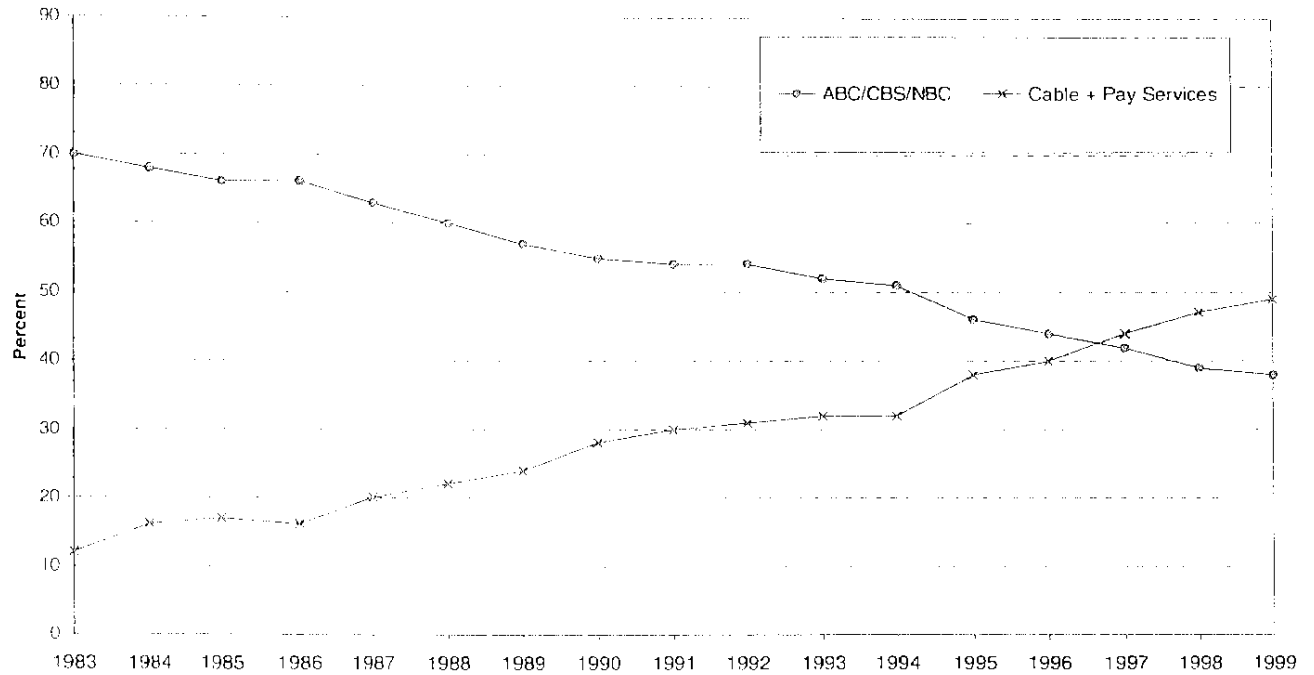
The increase in cable viewing is the natural outcome of several other trends. First, as shown in Figure 5 above, the availability of cable and satellite television has greatly increased, rising from 60 percent in 1982 to essentially 100 percent today. Second, as shown in Figure 10, the typical number of channels per cable system has increased substantially. Third, the overall number of cable services has steadily increased, as Figure 11 clearly illustrates. The average cable subscriber has access to over 54 channels of programming, and satellite services typically offer subscribers

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<sup>13</sup> "The decline in [traditional] network share is attributable, in large part, to the emergence of other viewing options, including a new network, independent television stations, and cable television networks. Each of these alternatives represents not only a **source of** diversity for **viewers**, but an additional in-market opportunity for program producers." *Evaluation of the Syndication and Financial Interest Rules*, 8 FCC Rcd 3282 (1993) at ¶ 45.

# **FIGURE 9** **TELEVISION VIEWING SHARE TRENDS**

**All TV Homes: Traditional Networks v. Cable**  
**Calendar Year Average**  
**1983-1999**



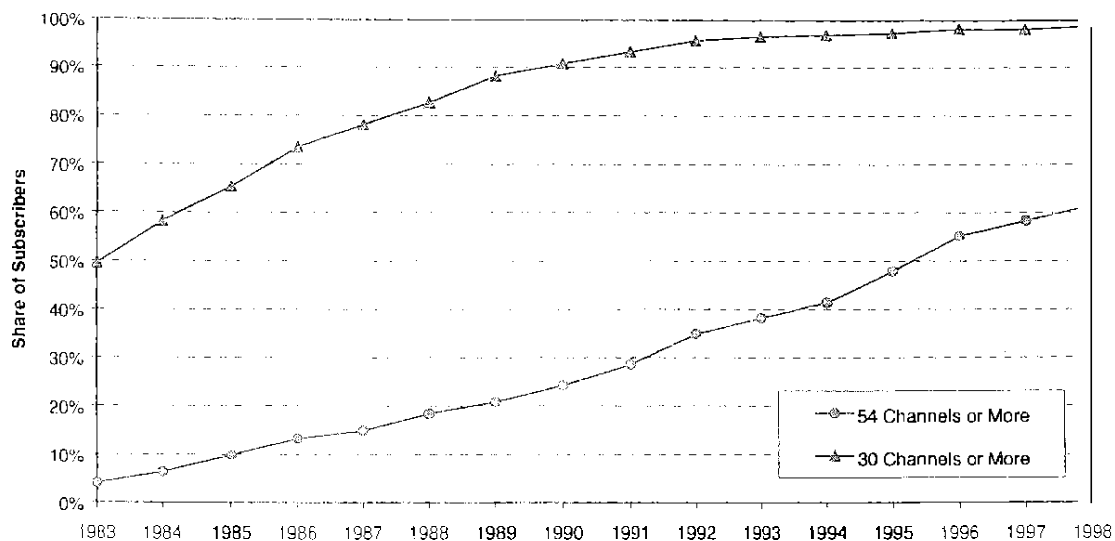
Notes: Shares in some cases add to more than 100% due to viewing in multi-set homes.

Historical superstation shares are split equally between cable networks and independent stations.

1999 data are for the first quarter.

Sources: Paul Kagan Associates, *Cable TV Advertising*, February 28, 1999 and June 21, 1999.

**FIGURE 10**  
**GROWTH IN THE NUMBER OF CABLE CHANNELS PER SYSTEM**  
**1983-1998**

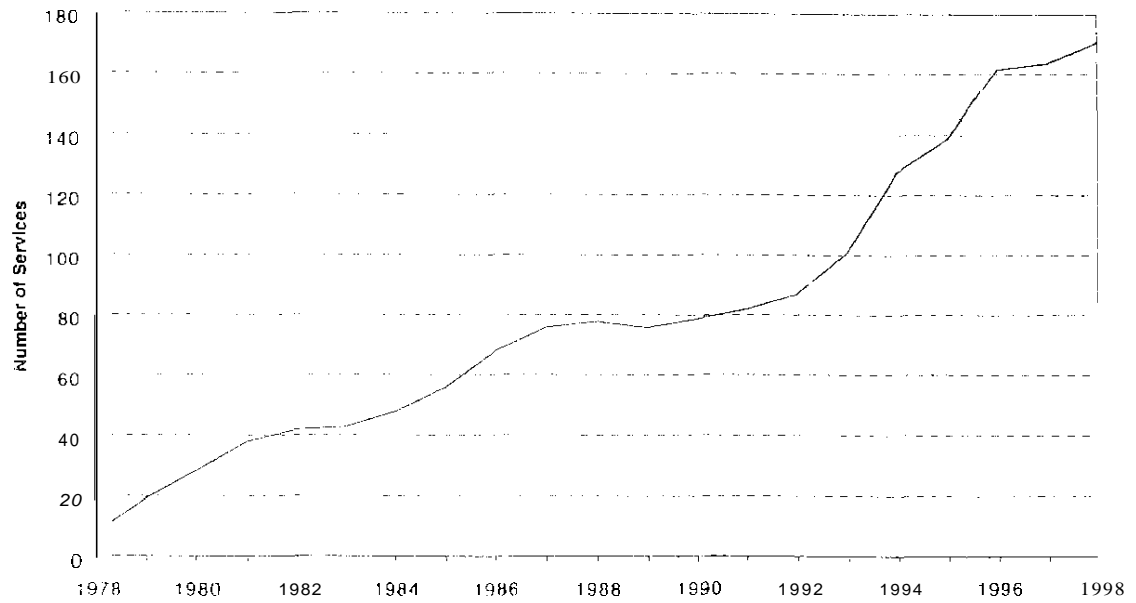


Notes Data are as of March 1 for 1983, April 1 for 1984 - 1991, November 1 for 1992 - 1993, and October 1 for 1994 - 1998.

Data for 1997 and 1998 do not include wireless cable systems

Sources Warren Publishing, Inc., *Television & Cable Factbook*, Cable & Services Volume Nos. 51-61, Services Volume Nos. 62-64 and 66, Stations Volume No. 65, and Cable Volume No. 67, 1983-1999 Editions, "Channel Capacity of Existing Cable Systems"

**FIGURE 11**  
**GROWTH IN THE NUMBER OF CABLE SERVICES**  
**1978-1998**



Source: National Cable Television Association, *Cable Television Developments*, Spring 1998, p. 6

hundreds of channels. Thus, nearly 80 percent of today's television households have literally dozens of program channels from which to choose.

The result of these developments is that cable systems can do more to fine tune their service packages to viewer tastes. **At** the same time, this process of fine tuning by cable program producers and system operators has led to audience fragmentation and a move toward narrowcasting (*i.e.*, programming aimed at relatively narrow audiences). Although narrowcasting is a trend that suits a subscription-based business model, it *weakens* the economics of an advertiser-supported mass medium such as broadcast television.

While cable and satellite service providers have provided the greatest competition for broadcast television to date, Internet-based technologies *are* likely to be an increasing source of competition for viewers' time in the future. Figure 12 below illustrates how several different new technologies have penetrated television households over the past decade. Perhaps most notable is the tremendous increase in the number of households that have Internet access. While fewer than half of all households are on line today, these households represent many of the most desirable demographic groups from the perspective of advertisers.<sup>14</sup> Thus, these are the viewers for whom broadcasters most need to compete to be profitable.

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<sup>14</sup> Indeed, the fact that on-line connectivity has historically been skewed toward young, affluent, males has often been pointed to by policy makers as a source of concern. See, for example, "Falling Through the Net: Defining the Digital Divide – A Report on Telecommunications and Information Technology Gap in America." National Telecommunications and Information Administration, July, 1999.

**FIGURE 12**  
**NEW TECHNOLOGIES' PENETRATION OF TELEVISION HOUSEHOLDS**  
**1988-1999**

Year	VCRs	PCs	On-Line	Video Games	Pay-Per-View'
1988	61%	18%			
1989	<b>67%</b>	20%		25%	
1990	72%	24%		31%	
1991	75%	25%		34%	16%
1992	76%	28%	3%	39%	18%
1993	76%	30%	4%	41%	<b>19%</b>
1994	<b>78%</b>	<b>33%</b>		<b>45%</b>	21%
1995	<b>80%</b>	35%	10%	51%	22%
1996	81%	<b>40%</b>	16%	50%	26%
1997	82%	45%	23%	57%	30%
1998	83%	<b>47%</b>	29%	69%	33%
1999	9%	49%			35%

**Notes**

Includes movies only

\*1999 television household data and VCR data are as of June 30th

**Sources**

Paul Kagan Associates, *The Kagan Media Index*, "Historical Data Base" April 28, 1999

Paul Kagan Associates, *The Kagan Media Index*, "Media Index Data Base," July 30, 1999

Paul Kagan Associates, *Marketing New Media*, March 24, 1999

The Veronis, Suhler & Associates Communications Industry Forecast, July 1997, p. 202

The Veronis, Suhler & Associates Communications Industry Forecast, October 1998, pp. 180 and 316



At present, there is considerable debate about whether on-line activities already are displacing television viewing. Some studies have found significant effects. For example, a recent Nielsen Media Research survey commissioned by America Online found that households connected to the Internet view an average of 13 percent less television per day than unconnected homes.” Other market analysts, however, have questioned the reliability of findings like these.<sup>16</sup> Whatever the situation today, there is little doubt that Internet-based media will pose major competitive challenges to the broadcast television industry in the coming years.

Today, hundreds of radio stations are available streamed over the Internet, and video streaming is likely to become widespread in the future.” **As** cable and telephone companies’ local access networks for providing Internet services improve, so will the quality of the video signals that service providers will offer households, creating new outlets for video programming of all sorts to compete directly with broadcast television. Even with the comparatively low production values that local access networks currently support, new media are becoming sources of news and opinion for many people.<sup>18</sup>

**Competition for Advertisers and Programming.** The increased competition for viewers has been accompanied by increased competition for advertisers and programming. The increased competition for advertisers is illustrated in part by the

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<sup>15</sup> Mile **Snider**, “Less TV in on-line homes,” *USA Today*, July 20, 1999 at **ID**

<sup>16</sup> For a brief summary of the debate, see Saul Hansell, “Studies Differ on Internet’s Impact on TV,” *The New York Times*, **September 21**, 1998 available at <http://www.nytimes.com/library/tech/98/09/biztech/article/>, May 3, 1999.

<sup>17</sup> **At present**, [broadcast.com](http://www.broadcast.com) alone streams the broadcasts of over **448** radio stations **and** networks as well as programming from **65** television stations and cable networks. Available at <http://www.broadcast.com/about/>, **September 5**, 1999.

<sup>18</sup> Witness the tremendous growth in on-line newspapers and portals, which often offer news and related information

tremendous growth in cable advertising revenues. **As** can be seen from the numbers in Figure 13, cable advertising revenues have been growing at a much more rapid rate than have broadcast revenues. Cable industry **gross** advertising revenues for 1999 are projected to exceed \$10 billion.”

Figure 14 illustrates this point graphically. In 1988, cable accounted for only 6 percent of television advertising. By 1993, the amount had doubled to 12 percent. And by 1998, cable’s share of television advertising had risen to 19 percent. Moreover, national cable advertising has gained acceptance among major national advertisers, such as automobile manufacturers and consumer products companies. Forty-eight of the top 50 television advertisers in 1998 spent 10 percent or more of their television advertising dollars on cable television advertising.<sup>20</sup> Procter & Gamble Company, the largest television advertiser spent almost one quarter of its television advertising dollars on cable.<sup>21</sup>

The fact that individual broadcast programs generally enjoy higher ratings than do individual cable programs is a source of advantage for broadcast television in competition with cable. However, some cable television programs today achieve ratings as high as

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<sup>19</sup> “Advertising Revenues Will Top \$10 Billion in 1999” citing Paul Kagan Associates *Financial Data Book*, 1998 projections Available at <http://www.cabletvadbureau.com/99Facts/facts02.htm>, August 12, 1999 Adjusting downward by 15 percent to account for advertising commissions, the net figure is \$8.8 billion.

Cabletelevision Advertising Bureau, “Top 200 Television Advertisers (1998),” available at <http://www.cabletvadbureau.com/Marketplace/98top200TV.htm>, August 12, 1999. Ninety-four of the top 100 television advertisers in 1998, and 179 of the top 200, spent 10 percent or more of their television advertising dollars on cable television advertising.

<sup>21</sup> *Ibid*

**FIGURE 13**  
**BROADCAST AND CABLE/DBS INDUSTRY NET REVENUES'**  
**1985-1998**

	Broadcast Industry (\$ millions)													
	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Networks' Net Advertising Revenues <sup>2</sup>	6,820	7,038	7,186	7,768	7,691	8,337	8,129	8,620	8,209	9,008	9,487	10,960	11,032	11,996
Stations' Net Advertising Revenues	<u>10,374</u>	<u>11,494</u>	<u>12,213</u>	<u>12,991</u>	<u>13,593</u>	<u>14,280</u>	<u>13,744</u>	<u>14,430</u>	<u>15,091</u>	<u>16,994</u>	<u>18,228</u>	<u>19,608</u>	<u>20,550</u>	<u>21,867</u>
Broadcast Industry Total	17,195	18,532	19,399	20,760	21,284	22,617	21,872	23,050	23,300	26,002	27,715	30,568	31,583	33,863

	Cable/DBS Industry (\$ millions)													
	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Cable Program Services' Net Advertising Revenues <sup>3</sup>	551	655	785	1,009	1,231	1,607	1,842	2,135	2,486	2,909	3,521	4,247	5,045	5,835
Cable Operators' Net Advertising Revenues	118	163	224	266	422	534	613	695	831	1,023	1,218	1,413	1,636	1,882
Cable Subscription Revenues <sup>4</sup>	<u>8,195</u>	<u>9,203</u>	<u>10,589</u>	<u>12,287</u>	<u>14,047</u>	<u>16,022</u>	<u>17,441</u>	<u>18,821</u>	<u>20,322</u>	20,249	21,965	23,754	25,525	27,203
DBS Subscription Revenues <sup>5</sup>										<u>431</u>	<u>918</u>	<u>1,474</u>	<u>2,124</u>	<u>2,672</u>
Cable/DBS Industry Total <sup>5</sup>	8,864	10,021	11,599	13,562	15,699	18,163	19,896	21,652	23,641	24,612	27,622	30,888	34,330	37,592

**Notes**

<sup>1</sup> Advertising revenues have been adjusted downward 15 percent to reflect advertising commissions.

<sup>2</sup> Includes Fox beginning in 1989. Includes UPN and WB beginning in 1995.

<sup>3</sup> Includes regional sports services.

<sup>4</sup> Includes full-service basic cable, pay, mini-pay and pay-per-view revenues.

<sup>5</sup> Includes pay revenues for DBS and all other non-cable operators and pay-per-view revenues for DBS operators.

Basic and mini-pay revenues are not included because data are not available.

<sup>6</sup> Sum of elements may not match total due to rounding.

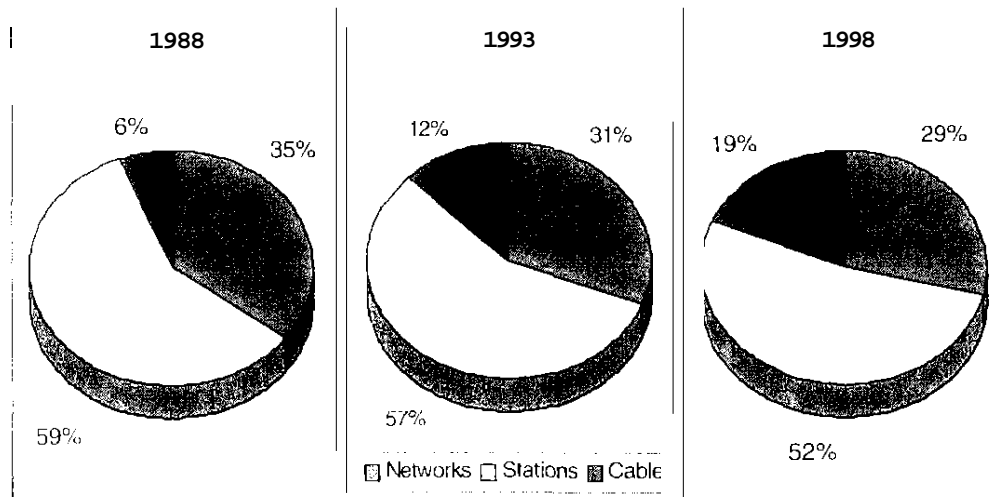
**Sources**

Paul Kagan Associates. *The Kagan Media Index*, January 30 1997, January 29 1999, and February 18 1999.

Paul Kagan Associates. *Cable TV Advertising*, March 31, 1998.

Paul Kagan Associates. *The Pay TV Newsletter*, April 30 1997, August 19 1998, and May 31 1999.

**FIGURE 14**  
**BROADCAST NETWORKS, STATIONS, AND CABLE SHARES OF**  
**NET TELEVISION ADVERTISING REVENUES**  
**1988-1998**



**Note**

Gross advertising revenues have been adjusted downward 15 percent to reflect advertising commissions

**Sources:**

Paul Kagan Associates, *The Kagan Media Index*, January 30, 1997, January 29, 1999, and February 18, 1999.  
 Paul Kagan Associates, *Cable TV Advertising*, March 31, 1998.

some broadcast network programs.<sup>22</sup> Moreover, even when the total audiences are smaller, cable programs can in many cases offer very targeted audiences that advertisers find valuable. Further, cable households offer more attractive demographics than do average television households.<sup>23</sup>

In addition to cable services, broadcast television competes with outdoor advertising, direct mail, print media, and radio for advertising dollars.<sup>24</sup> There is considerable debate about the extent of this competition. Even if these media are dismissed completely as sources of competition, however, there should be no debate about the facts that television advertising itself is more competitive than ever and there is no need for the national multiple ownership rule examined below to protect competition.<sup>25</sup>

While broadcasters, particularly the traditional television networks, face dramatically increased competition today, there is one piece of evidence that may appear to contradict this finding: measured in terms of revenues, the networks collectively had

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<sup>22</sup> For recent examples of cable ratings, see <http://www.broadcastingcable.com/cable/cable.asp>

<sup>23</sup> See, for example, "Why Advertise on Network Cable," Cabletelevision Advertising Bureau, available at <http://www.cabletvadbureau.com/WhyCable/whynetcab.htm>, August 12, 1999.

<sup>24</sup> For arguments that there is significant competition among these media, see "An Economic Analysis of the Broadcast Television National Ownership, Local Ownership, and Radio Cross-Ownership **Rules**," Economisrs Incorporated, May 17, 1995 submitted *In the Matter of Review of the Commission's Regulations Governing Television Broadcasting*, MM Docket 91-221, Appendix D. See also Kitt and Beutel, "An Economic Analysis of the Relevant Advertising Market(s) within Which to Assess the Likely Competitive Effects of the Proposed Time Brokerage Arrangements between WUAB Channel 43 and WOIO Channel 19," National Economic Research Associates (July 15, 1994).

<sup>25</sup> Indeed, as shown below, the rule does nothing to protect competition. The fact that markets perform well today is a reflection of the strength of market forces, not the efficacy of regulation. Given that these conclusions hold even if one excludes all non-television media from consideration, there is no need in this white paper to address the issue of whether broadcast and cable television advertising constitutes a distinct relevant market.

their best up-front sales season ever in the summer of 1999.<sup>26</sup> Simply put, the question is this: if there is so much competition, then why did the networks have such a good up-front season this summer?

There are several parts to the answer to this question. First, and most important, there is no inconsistency between an increase in revenues and an increase in competition. The total size of a market may well grow as competition increases. Indeed, broadcasters are garnering a smaller proportion of total television advertising dollars, as can be seen from Figure 14 above. Moreover, local broadcast advertising revenues are down, apparently under pressure from cable.<sup>27</sup>

Still, it might appear paradoxical that network revenues are increasing as audience size shrinks. The consensus among industry observers is that this trend is in **part** due to the Internet boom and the need for Internet companies to advertise on traditional media to establish their brand names and web presence.<sup>28</sup> But while today new media appear to be net *demanders* of advertising, new media are being built on business models that anticipate being net *suppliers* of advertising in the future. Indeed, in a recent report, the Internet market research firm Jupiter Communications predicted that spending on Internet

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<sup>26</sup> Up front sales refer to advertising sales made prior to the launch of a new fall television season. For a discussion of 1999-2000 season up front sales, see for example, Sally Beatty, "TV Networks Top Forecast for Ad Sales," *The Wall Street Journal*, June 1, 1999 at B6.

<sup>27</sup> See, for example, Erin While, "TV Stations See Ad-Time Demand Slow Considerably," *The Wall Street Journal*, June 11, 1999 at B2 and "Slow going in second quarter," *Broadcasting and Cable Online*, [http://www.broadcastingcable.com/top/top\\_article.asp?articleID=692236751](http://www.broadcastingcable.com/top/top_article.asp?articleID=692236751) (posted June 25, 1999)

See Stuart Elliot, "Advertising: A blitz by new media helps old media foil forecasts of doom," *The New York Times*, July 23, 1999 at C1. Broadcast television networks still deliver the largest numbers of viewers, so advertisers turn to these networks when they want to reach a truly mass audience

advertising will rise to \$11.5 billion in 2003.<sup>29</sup> And Forrester Research, a technology research firm, projects that U.S. spending on online advertising will grow almost tenfold between now and 2004 to reach \$22 billion.<sup>30</sup> Like cable television, new media also hold the promise of providing advertisers with highly targeted means of reaching the audiences they seek."

Moreover, broadcasting revenues are driven by more than competition. The demand for advertising is sensitive to the overall health of the economy. Today, the U.S. economy is continuing an unparalleled run of prosperity. But experience teaches that the boom will not continue forever. From the mid 1980s through early 1990s, the networks endured tremendous pressures on their revenues in part as the result of slack demand for advertising in a weak economy. Indeed, at the time, some observers feared the networks were about to go out of business. Just as it was important not to overreact to the bad times then, it is important not to let the current strength of the economy mask problems created by regulation.

The focus on current network advertising revenues has another shortcoming. It obscures the other side of the profitability formula: costs. The increased competition for viewers and advertisers is being accompanied by increased competition for programming. There appear to be two ways in which this competition is driving up the costs of programming. First, in interviews, industry executives have indicated that they turn to premium or event programming in order to fight fragmentation. Hence, there is an

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<sup>29</sup> Press release available at <http://www.jup.com/jupiter/press/releases/1999/0818.html>, August 29, 1999.

<sup>30</sup> Press release available at <http://www.forrester.com/ER/Press/Release/0,1769,159,FF.html>, August 29, 1999.

increased emphasis on big-ticket sporting events, movies, and awards shows that can attract mass audiences even today. The rights to these programs are expensive. And the increasing demand by the broadcast networks and their rivals for the limited supply of event programming is driving the prices of movie and sports rights **up** even further. For example, between 1998 and 1999 alone, the license fee paid by ABC for the Academy Awards increased by over 67 percent. Similarly, the per-season cost of broadcast rights for Monday Night Football in the deal commencing with the 1998 season was more than double the cost in the previous deal covering the 1994 through 1997 seasons

Second, with the tremendous growth of video programming outlets, there are more buyers chasing a limited pool of talent (*e.g.*, writers, producers, and actors). Dramas and sitcoms are increasingly expensive due to a shortage of talent relative to increased demand. Even if the competition for dramas and sitcoms today were solely an inter-network battle, that battle would be increasingly intense because there are more networks today than in the past. Moreover, broadcast television networks face growing competition from cable for talent. For example, Turner Network Television recently announced that the network will spend \$800 million over the next five years on original movies, miniseries, and dramatic series."<sup>31</sup>

The ability and incentive to pay for high-cost programming depends, of course, on the value that the purchaser can expect to receive from exhibiting the programming. In the case of broadcasters, that value is derived from the size of the audience **and** the resulting ability to sell advertising. Many cable programming services also rely on

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<sup>31</sup> Greg Farrell, "Niche Web Sites Draw Advertisers," *USA Today Tech Report*, <http://usatoday.com/life/cyber/tech/ctf782.htm>, posted August 6, 1999.

<sup>32</sup> Linda Moss, "TNT to Reveal Several Hour-Long Dramas," *Multichannel News*, August 9, 1999 at 20.



advertising sales as a source of revenue. However, cable programming services have another source of revenue as well, subscription fees. Figure 15 illustrates graphically the fact that cable television's dual revenue streams surpassed broadcast television's single revenue stream in 1997. This dual revenue stream likely explains why cable programming services have been outbidding the broadcast networks for the rights to many event programs such as recent hit theatrical movies.<sup>33</sup>

### C. Network and Station Growth and Ownership

While competition between terrestrial broadcasting and other media has increased, so has competition within terrestrial broadcasting. This increase has occurred at both the station and network level. In 1946, there were **six** television stations authorized and on the air, with one additional construction permit holder operating intermittently.<sup>34</sup> Today there are over 1,200 commercial stations. The growth of stations has in turn fueled the growth of additional networks. There are more broadcast television *networks* today than there were television *stations* in 1946. There are now seven mainstream commercial networks plus several other more specialized and regional broadcast networks. At the time of the Barrow Report,<sup>35</sup> there were only two.

**Fox** was launched in 1986, and The WB Network and UPN were launched in the mid-1990s. More recently, Pax TV has debuted. It is significant that, with the exception

<sup>33</sup> Movies for which cable networks have outbid broadcast networks for the broadcast window premieres include: "The English Patient," "Point Blank," "He Got Game," "The Jackal," "Midnight in the Garden of Good and Evil," "Shawshank Redemption," "Wag the Dog," and "The Wedding Singer."

<sup>34</sup> *Network Affiliation Agreements (Two Year Rule)*, 4 FCC Rcd 2755, 66 RR 2d 190 (1989) at 2757 (¶ 14, footnote omitted).

*Network Broadcasting, Report of the Network Study Staff to the Network Study Committee* (Oct 1957) reprinted in Report of the House Committee on Interstate and Foreign Commerce, H.R. Rep. No. 1297, 85th Congress, 2d Sess. (1958) ("Barrow Report").